



COMPTROLLER

UNDER SECRETARY OF DEFENSE
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AUG 12 2002

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
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GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
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COMMAND
COMMANDER IN CHIEF, U.S. TRANSPORTATION COMMAND
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Accounting for Excess, Obsolete, and Unserviceable Inventory and Operating Materials and Supplies

In previous years, the financial statements of the Department of Defense reflected values of excess, obsolete, and unserviceable inventory and operating materials and supplies that were derived from the Supply System Inventory Report (SSIR). That method does not comply with the Federal Financial Management Improvement Act of 1996 (P.L. 104-208), which requires use of the United States Government Standard General Ledger (USSGL) at the transaction level.

Beginning with preparation of the fiscal year 2002 financial statements, the Department will no longer use the SSIR as the basis for its financial presentation of excess, obsolete, and unserviceable inventory. The account "Excess, Obsolete and Unserviceable" (USSGL 1513 in the General Funds or 1524 in the Working Capital Funds) will be populated by material in condition code H, P or S as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DoD 4000.25-2-M). Representative transactions are attached. No other events or adjustments will be used to populate this asset account. A standard footnote will be developed for use in the fiscal year 2002 financial statement and provided in Volume 6B, "Form and Content," of the Financial Management Regulation (DoD 7000.14-R).

Regarding excess material, we acknowledge that prudent material management practice requires managers to identify material suitable for reutilization. However, the exercise of managerial judgment does not itself produce an accounting transaction. Further, condition codes do not distinguish this financial category since fully serviceable items, as well as items in need of repair, may be judged excess or obsolete. Quantities deemed "potentially redistributable" are

indistinguishable from quantities of the same stock item within the projected demand level. Therefore, rather than anticipate possible disposal on the basis of “potentially redistributable” stock levels, the Department will recognize its losses due to disposal of excess at the time the material is transferred to its disposal activities.

Consistent with this policy, the disposal activities at the Army Explosive Ordnance Disposal facilities and the Defense Reutilization and Marketing Service will record material received for disposal, regardless of condition code, in the excess account (1513 or 1524) at the losing entities’ moving average cost. The disposal facilities will also record 100% revaluation allowance, which produces an inventory value of zero.

This policy change will be incorporated in the revision of Volume 11B of the Financial Management Regulation. The point of contact for this matter may be reached by telephone at (703) 697-3200 (DSN 227-3200).

/s/

Dov S. Zakheim

Attachment

OPERATING ACTIVITY (General Fund or Working Capital Fund)			ARMY EXPLOSIVE ORDNANCE DISPOSAL ACTIVITY (GF) DEFENSE REUTILIZATION & MARKETING SERVICE (WCF)		
General Fund "OM&S" USSGL	Working Capital Fund "Inventory" USSGL	Account Title	General Fund "OM&S" USSGL	Working Capital Fund "Inventory" USSGL	Account Title

Change condition code A-D inclusive to H, P, S, or V:

Dr. 1513 1524 Excess, Obsolete & Unserviceable (Condemned)
 Cr. 1511 1521 Available for Use/Sale
 Dr. 7210 7210 Losses on Disposition of Assets
 Cr.1519.3 1529.4 Allowance for Unserviceables
 No budgetary entry

Change condition code (other than A-D inclusive) to H, P, S, or V:

Dr. 1513 1524 Excess, Obsolete & Unserviceable (Condemned)
 Cr. 1514 1523 Held for Repair
 Dr. 1519.4 1529.3 Allowance for Repair
 Cr. 6790 6790 Other Expenses not requiring budgetary resources
 (repair expense estimate)
 Dr. 7210 7210 Losses on Disposition of Assets
 Cr. 1519.3 1529.4 Allowance for Unserviceables
 No budgetary entry

Transfer condition code H, P, S, or V item to disposal activity:

Dr. 1519.3 1529.4 Allowance for Unserviceable
 Cr. 1513 1524 Excess, Obsolete & Unserviceable (Condemned)
 No budgetary entry

Dr. 1513 1524 Inventory Excess Obsolete & Unserviceable
 Cr. 1519.3 1529.4 Allowance for Unserviceable

Transfer condition code A-D inclusive item to disposal activity:

Dr. 7210 7210 Losses on Disposition of Assets
 Cr. 1511 1521 Held for Use/Sale
 No budgetary entry

Dr. 1513 1524 Inventory Excess Obsolete & Unserviceable
 Cr. 1519.3 1529.4 Allowance for Unserviceable

OPERATING ACTIVITY (General Fund or Working Capital Fund)			ARMY EXPLOSIVE ORDNANCE DISPOSAL ACTIVITY (GF) DEFENSE REUTILIZATION & MARKETING SERVICE (WCF)		
General Fund "OM&S" USSGL	Working Capital Fund "Inventory" USSGL	Account Title	General Fund "OM&S" USSGL	Working Capital Fund "Inventory" USSGL	Account Title

Transfer (condition code other than A-D inclusive, H, P, S, or V) item to disposal activity:

Dr. 7210	7210	Losses on Disposition of Assets	Dr. 1513	1524	Inventory Excess Obsolete & Unserviceable
Cr. 1514	1523	Held for Repair			
Dr. 1519.4	1529.3	Allowance for Repair	Cr. 1519.3	1529.4	Allowance for Unserviceable
Cr. 6790	6790	Other Expenses not requiring Budgetary Authority			
<i>No budgetary entry</i>					

Transfer condition code A-D inclusive item from disposal activity:

Dr. 1511	1521	Held for Use/Sale	Dr. 1519.3	1529.4	Allowance for Unserviceable
Cr. 7210	7210	Losses on Disposition of Assets	Cr. 1513	1524	Inventory Excess Obsolete & Unserviceable
<i>No budgetary entry</i>					

Transfer (condition code other than A-D inclusive, H, P, S, or V) item from disposal activity:

Dr. 1514	1523	Held for Repair	Dr. 1519.3	1529.4	Allowance for Unserviceable
Cr. 7210	7210	Losses on Disposition of Assets	Cr. 1513	1524	Inventory Excess Obsolete & Unserviceable
Dr. 6790	6790	Other Losses not requiring Budgetary Authority			
Cr. 1519.4	1529.3	Allowance for Repair			
<i>No budgetary entry</i>					

Sell item from disposal activity

Dr. 1529.4	Allowance for Unserviceable
Cr. 1524	Inventory Excess Obsolete & Unserviceable
Dr. 1310	Accounts Receivable
Cr. 5100	Revenue from Goods Sold